20th ANNUAL REPORT

JANUARY 31, 1966

Corp report

GORDON MACKAY & STORES LIMITED

File

Subsidiary Companies

Gordon Mackay and Company Limited
Smith's of Windsor, Limited
C. H. Smith Holdings Limited
Walker Stores Limited

GORDON MACKAY & STORES LIMITED

Board of Directors

Aubrey W. Baillie

Roderick W. L. Laidlaw

W. G. Mackenzie Robinson, O.B.E., C.A.

G. Martyn Scott, C.A.

James W. Walker, O.B.E., Q.C.

William P. Walker, O.B.E.

William L. Wheler

David M. Woods

Peter L. Woods

Officers

President—David M. Woods

Vice-President—James W. Walker, O.B.E., Q.C.

Secretary-Treasurer—G. Martyn Scott, C.A.

Transfer Agents National Trust Company, Limited, Toronto

Counsel McCarthy & McCarthy, Toronto

Head Office Gordon Mackay Road, Box 532, Toronto 15, Ontario

Auditors Clarkson, Gordon & Co., Toronto

COVER—WALKER'S BRANTFORD

PHOTOGRAPH—GILBERT A. MILNE & CO.
MICHAEL G. MILNE

DIRECTORS' REPORT TO SHAREHOLDERS

Economic conditions in all our market areas continued at a high level during the past year. In each of the 34 communities in which we have stores, employment has remained high and, almost without exception, conditions are better in each community than they were a year ago. Company sales for the past year rose by 13% to $28 million. Despite expenses noted below, incurred in connection with the opening of new stores, profits were better than those of the previous year.

After providing for depreciation and income taxes, net income from operations amounted to $346,000. This compares with $283,000 for the year ending January 31st, 1965. Profit on disposal of property and income tax recoveries, resulting from losses carried forward from prior years, increased the net income for the year to $514,000.

Working capital at January 31st, 1966, was $3,215,000. The decline from the January 31st, 1965, total of $3,640,000 is attributable to the expenditures on fixed assets in connection with the current expansion program.

During the year the operation of our stores improved significantly through greater sales volume and better gross profits. Expenses were kept under good control, but costs attributable to the addition of the new stores reduced taxable profits last year by about $200,000. During the year a number of stores were modernized and substantial additions were made to stores in Peterborough and Kitchener.

In 1965 we arranged for the purchase of six medium sized department store properties from The T. Eaton Company Limited. These properties are being acquired over a period of months, two substantial stores having been modernized and opened during the past year. The remaining four stores will be opened by the early Fall of 1966. The financing of this undertaking has been arranged on a temporary basis with our bankers and the Company has agreed with them to arrange longer-term financing to replace this credit by August 15th, 1967. These six stores, together with a new store to be opened in London in June, will add nearly 45% to our selling space in a period of little more than a year. During 1966 we will be obliged to

continue capital expenditures at a substantial rate. However, we expect that 1967 will be a year of consolidation, in which we may enjoy the benefits of the substantial expansion of recent years. At the year end we had 41 stores in operation.

Our merchandising program, which has been in effect now for three years, gives us confidence in the future. Directed to the popular and medium priced market, we are emphasizing fashions and adding merchandise in slightly higher price lines. This operation is effectively directed from the central office, while important management responsibilities remain in the hands of individual store managers.

There is a useful niche in the retail field that our stores fill, acting as limited-line or junior fashion department stores. In metropolitan areas we are participating in substantial shopping centres, many of which have major department store leadership. In such centres we can contribute significantly to the breadth of selection necessary for their success. Outside metropolitan areas we play an important part in the downtowns of smaller cities and towns. We have replaced what was historically the family department store in many communities.

At the year end we closed our operation in mass merchandising, in which we had participated for several years. This development did not appear to be compatible with our main business.

Your Directors wish to record their appreciation of the loyal support of the staff during the year. Our regularly employed staff numbers over 1,700 people. Our Quarter Century Club boasts 90 members, of whom 26 have served for over 40 years and 4 for over fifty years.

On behalf of the Board
D. M. Woods
President

Toronto
April 14th, 1966

GORDON MACKAY & STORES LIMITED

(Incorporated under the laws of Ontario) and its subsidiaries

Consolidated Balance Sheet January 31, 1966

(with comparative figures at January 31, 1965)

Assets

	1966	1965
Current assets:		
Cash	$ 56,794	$ 49,040
Investment in listed stocks, at cost (in 1965 less amounts written off) market value, 1966 $263,500, 1965 $228,500	182,413	100,258
Accounts receivable	3,101,141	2,335,480
Inventories of merchandise valued at the lower of cost and market	4,205,741	3,611,813
Prepaid expenses and sundry assets	200,336	191,842
Total current assets	7,746,425	6,288,433
Mortgage receivable, due April 15, 1968	258,097	
Properties and equipment (note 1):		
Buildings and equipment, at cost	7,317,634	6,365,508
Less accumulated depreciation	4,051,259	3,666,309
	3,266,375	2,699,199
Land, at cost	586,295	643,480
Total properties and equipment	3,852,670	3,342,679
	$11,857,192	$9,631,112

Liabilities and Shareholders' Equity

	1966	1965
Current liabilities:		
Bank borrowings (note 3)	$ 3,178,077	$1,683,343
Owing for merchandise, wages, etc.	1,183,008	862,993
Taxes payable	170,249	101,586
Total current liabilities	4,531,334	2,647,922
Mortgages payable	48,256	106,194
Shareholders' equity:		
Capital —		
Authorized:		
300,000 Class A shares without nominal or par value, entitled to a fixed cumulative dividend of fifty cents per share per annum in priority to dividends on the Class B shares		
300,000 Class B shares without nominal or par value (note 5)		
Issued:		
201,600 Class A shares; 202,200 Class B shares (note 5)	366,000	360,000
Contributed surplus (unchanged during year)	2,674,494	2,674,494
Earned surplus	4,237,108	3,842,502
Total shareholders' equity	7,277,602	6,876,996
	$11,857,192	$9,631,112

See notes to the Consolidated Financial Statements, page (5)

Statement of Consolidated Income and Earned Surplus
Year Ended January 31, 1966

(with comparative figures for the year ended January 31, 1965)

	1966	1965
Sales (including sales of leased departments)	$28,394,039	$25,211,603
Income from operations before depreciation and income taxes	$ 1,196,397	$ 1,011,464
Depreciation	554,553	447,279
Income from operations before income taxes	641,844	564,185
Income taxes	295,150	281,000
Net income from operations	346,694	283,185
Add:		
Income tax recoveries from tax losses carried forward	32,000	42,500
Profit on disposal of property	135,432	60,623
Net income for the year	514,126	386,308
Earned surplus at beginning of year	3,842,502	3,657,794
Reversal of amounts formerly written off investments	82,155	
	4,438,783	4,044,102
Dividends paid to shareholders:		
On Class A shares—50¢ per share	100,800	100,800
On Class B shares—50¢ per share	100,875	100,800
	201,675	201,600
Earned surplus at end of year	$ 4,237,108	$ 3,842,502
Net income from operations per Class B share after provision for dividends on Class A shares	$ 1.21	$ .90

Notes to Consolidated Financial Statements January 31, 1966

1. Depreciation is written by the company at maximum rates normally permitted for income tax purposes (except for improvements on leaseholds over 15 years which are amortized more quickly than the maximum tax rates). The rates used are considered to reflect fairly the useful lives of the type of assets used by the company. A summary of depreciable assets and accumulated depreciation is as follows:

	Cost	Accumulated depreciation
Buildings owned	$1,833,386	$ 793,775
Improvements to leased buildings	834,072	290,725
Furniture and equipment	4,650,176	2,966,759
	$7,317,634	$4,051,259

2. The company is opening or expanding in six locations in 1966/67, which will involve capital expenditures of approximately $2,000,000.
3. Bank loans outstanding at January 31, 1966, include $975,000 under a special $3,275,000 line of credit obtained to finance the current expansion program. The company has agreed to arrange longer-term financing to replace this line of credit by August 15, 1967.
4. The company occupies its head office premises and 30 retail store locations on long-term leases for periods extending up to 24 years. Total rentals paid in the fiscal year ended January 31, 1966, on premises on long-term lease amounted to $625,500.
5. During the year, under the company's Incentive Stock Option Plan, options were granted on 4,000 Class "B" shares at $12.50 per share. Options on 600 shares at $10.00 per share were exercised. At January 31, 1966, there were outstanding options on 12,400 shares at $10.00, and on 4,000 shares at $12.50. These expire at various dates between 1970 and 1975.

On behalf of the Board:
D. M. WOODS, Director
J. W. WALKER, Director

Statement of Source and Disposition of Consolidated Funds
Year Ended January 31, 1966

(with comparative figures for the year ended January 31, 1965)

	1966	1965
Source of funds:		
Operations —		
Net income from operations	$ 346,694	$ 283,185
Depreciation (a charge against operating income that does not require an outlay of funds in the year)	554,553	447,279
Income tax recoveries	32,000	42,500
	933,247	772,964
Proceeds on sale of fixed assets (less mortgage taken back)	319,096	1,074,035
New mortgages		52,194
Issue of capital stock	6,000	
Revaluation of investments	82,155	
	1,340,498	1,899,193
Disposition of funds:		
Acquisition of fixed assets and leasehold improvements	1,506,305	786,503
Dividends paid	201,675	201,600
Mortgage principal repayment	57,938	18,000
	1,765,918	1,006,103
Net addition or (reduction) to working capital	$ (425,420)	$ 893,090
Represented by:		
Increase (decrease) in cash	$ 7,754	$ (188,057)
Increase in investments	82,155	
Increase in accounts receivable	765,661	231,255
Increase in inventories	593,928	289,429
Increase in sundry assets	8,494	102,715
Decrease (increase) in bank borrowings	(1,494,734)	317,650
Decrease (increase) in other liabilities	(388,678)	140,098
Net addition or (reduction) to working capital	$ (425,420)	$ 893,090
Working capital, end of year	$3,215,091	$3,640,511

Auditors' Report

To the Shareholders of Gordon Mackay & Stores Limited:

We have examined the consolidated balance sheet of Gordon Mackay & Stores Limited and its subsidiaries as at January 31, 1966 and the statement of consolidated income and earned surplus for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the accompanying consolidated balance sheet and statement of consolidated income and earned surplus present fairly the consolidated financial position of the companies as at January 31, 1966 and the results of their operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Our examination also included the accompanying statement of source and disposition of consolidated funds which, in our opinion, when considered in relation to the aforementioned financial statements, presents fairly the sources and dispositions of consolidated funds of the company for the year ended January 31, 1966.

Toronto, Canada,
April 6, 1966.

Clarkson, Gordon & Co.
Chartered Accountants

RETAIL STORES ARE OPERATED BY
SMITH'S OF WINDSOR, LIMITED, IN WINDSOR, ONTARIO
AND BY WALKER'S DIVISION OF GORDON MACKAY AND COMPANY LIMITED IN:

Arnprior
Barrie
Bowmanville
Brantford
Brockville
Chatham
Collingwood
Dunnville
Fort William
Galt
Guelph

Kitchener
Midland
Newmarket
Niagara Falls
North Bay
Orillia
Oshawa
Owen Sound
Pembroke
Peterborough
Port Colborne

Renfrew
Ridgetown
St. Catharines
St. Thomas
Sault Ste. Marie:
 Churchill Plaza
 and
 Queen St.
Simcoe
Smiths Falls

Stratford
Tillsonburg
Toronto:
 Cloverdale Mall
 Dixie Plaza
 Dufferin Plaza
 Golden Mile Plaza
 Parkway Plaza
 Rexdale Plaza
 Shopper's World
Woodstock